The Molson Companies Limited

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Statistics:
Public Company
Incorporated: 1844 as Thos. & Wm. Molson & Company
Employees: 14,700
Sales: C$1.55 billion (US$1.09 billion) (1997)
Stock Exchanges: Montreal Toronto Vancouver
Ticker Symbol: MOL
SICs: 2082 Malt Beverages; 5211 Lumber & Other Building Materials Dealers; 6512 Operators of Nonresidential Buildings; 7941 Professional Sports Clubs & Promoters; 7999 Amusement & Recreation Services, Not Elsewhere Classified

Company Perspectives:

Much has been accomplished, but more remains to be done. Brewing has always been the single most important source of shareholder wealth for The Molson Companies and there is still much to do to renew the Corporation as a brewing company. However, we are closer to that goal than at any time in the past decade, and we are working harder than ever on behalf of our shareholders.

Company History:

Established in 1786, The Molson Companies Limited is perhaps best known for its brewery, which is the oldest in North America. Molson Breweries supplanted longtime leader Labatt Brewing Company Limited as Canada's leading brewery in 1989 and claimed slightly less than half of the country's beer market in the late 1990s. Molson has nurtured a distinctly Canadian character: its flagship beer brand is "Molson Canadian," its beers are brewed only in Canada, and its advertising aggressively pitches the "I am Canadian" line. Molson Breweries is also the leading exporter of beer into the United States and is involved in partnerships with two major U.S. brewers, Coors Brewing Company and Miller Brewing Company, as well as with Foster's Brewing Group Ltd. of Australia.

In addition to its brewing interests, Molson Companies owns the Montreal Canadiens National Hockey League team and the Molson Centre, the Canadiens' home arena. It also owns Beaver Lumber Company Limited--a 145-unit retail chain offering lumber, building materials, and supplies--but plans to sell this noncore asset, the last of its retailing operations.

Origins in Montreal Brewery

The history of Molson brewing began soon after 18-year-old John Molson emigrated from Lincolnshire, England, during the late 18th century. He arrived in Canada in 1782 and became a partner in a small brewing company outside Montreal's city walls on the St. Lawrence River a year later. In 1785 he became the sole proprietor of the brewery, closed it temporarily, and sailed to England to settle his estate and buy brewing equipment. Upon his return in 1786, with a book entitled *Theoretical Hints on an Improved Practice of Brewing* in hand, the novice started brewing according to his own formula. By the close of the year, Molson had produced 80 hogsheads (4,300 gallons) of beer. In 1787 Molson remarked, "My beer has been almost universally well liked beyond my most sanguine expectations." His statement in part reflects the quality of the brew, but it also indicates that Molson had excellent timing; he faced little competition in the pioneer community.

Before electrical refrigeration became available, Molson was confined to a 20-week operating season because the company had to rely on ice from the St. Lawrence River. Nevertheless, production grew throughout the 1800s as the Montreal brewery steadily added more land and equipment. Population growth and increasingly sophisticated bottling and packaging techniques also contributed to Molson's profitability in the early days.

It was not long before Molson became an established entrepreneur in Montreal, providing services in the fledgling community that contributed to its growth into a major Canadian city. Molson first diversified in 1797 with a lumberyard on the brewery property. A decade later he launched the *Accommodation,* Canada's first steamboat, and soon thereafter he formed the St. Lawrence Steamboat Company, also known as the Molson Line. The steam line led to Molson's operation of small-scale financial services between Montreal and Quebec City; eventually the services became Molson's Bank, chartered in 1855.

In 1816 John Molson signed a partnership agreement with his three sons--John Jr., William, and Thomas&mdash-suring that the brewery would remain under family control. He was elected the same year to represent Montreal East in the legislature of Lower Canada and opened the Mansion House, a large hotel in Montreal that housed the public library, post office, and Montreal's first theater.

The Molsons established the first industrial-scale distillery in Montreal in 1820. Three years later, the youngest brother, Thomas, left the organization after a severe disagreement with his family. In 1824 he moved to Kingston, Ontario, where he established an independent brewing and distilling operation.

The elder John Molson left the company in 1828, leaving John Jr. and William as active partners. He served as president of the Bank of Montreal from 1826 to 1830, and in 1832 he was nominated to the Legislative Council of Lower Canada. Possibly his most fortuitous venture was his contribution of one quarter of the cost of building Canada's first railway, the Champlain and St. Lawrence. He died in January 1836 at age 72.

Thomas Molson returned to Montreal in 1834 and was readmitted to the family enterprise. Over the next 80 years new partnerships formed among various members of the Molson family, prompting several more reorganizations. The first in the third generation to enter the family business was John H.R. Molson, who joined the partnership in 1848. He became an increasingly important figure in the company as William and John Jr. devoted more of their time to the operation of Molson's Bank.

In 1844 the Molson brewery, now called Thos. & Wm. Molson & Company, introduced beer in bottles that were corked and labeled by hand. Beer production grew faster than bottle production, though, necessitating the company's purchase of a separate barrel factory at Port Hope, Ontario, in 1851. In 1859 Molson started to advertise in Montreal newspapers, while also setting up a retail sales network and introducing pint bottles.

The company became John H.R. Molson & Bros. in 1861 following the establishment of a new partnership with William Markland Molson and John Thomas Molson. In 1866 the Molsons closed their distillery, citing poor sales, and in 1868 they sold their property in Port Hope.

By 1866, the brewery's hundredth year in Molson hands, its production volume had multiplied 175 times but profit cleared on each gallon remained the same--26¢. In the early years of the 20th century, the company incorporated pasteurization and electric refrigeration into its methods. In addition, electricity replaced steam power, and mechanized packaging devices sped the bottling process. In 1911 the company became Molson's Brewery Ltd. following its reorganization as a joint-share company. The Molson family would continue to hold a major stake in the company through the late 1990s. The family's direct interest in banking ended in 1925 when Molson's Bank merged with the Bank of Montreal.

The first half of the 20th century was a period of rapid growth for Molson. Production at the Montreal brewery rose from three million gallons in 1920, to 15 million in 1930, to 25 million in 1949. Molson adopted modern marketing and advertising methods to enhance market penetration and in 1930 began producing its first promotional items--despite founder John Molson's contention that "An honest brew makes its own friends."

Additional Breweries Built and Acquired Starting in 1955

In the mid-1950s Molson management recognized a need to expand operations significantly. By concentrating their resources, other Canadian breweries had finally begun to compete successfully against perennial leader Molson. Molson decided that the appropriate strategy was to have a brewery operating in each province, as distribution from its base in Quebec to other provinces was subject to strict government regulations. With operations in the other provinces, Molson could further build its market throughout Canada. This large-scale expansion began when Molson announced a second brewery would be built on a ten-acre site in Toronto. Modernizations at the Montreal facility had, it was felt, fully maximized output there. The new Toronto installation opened in 1955 and became the home of Molson's first lager, Crown and Anchor. In the next few years Molson acquired three breweries: Sick's Brewery, bought in 1958; Fort Garry Brewery in Winnipeg, 1959; and Newfoundland Brewery, 1962.

The expansion effort resulted in good returns for Molson investors; between 1950 and 1965 earnings more than doubled. Even so, Molson leaders recognized that expansion potential within the mature brewing industry was limited, and further, that growth rates in the industry would always be slow. It was clear that even the most successful brewing operation soon would reach the limits of its profitability. Thus Molson began an accelerated diversification program in the mid-1960s that heralded in Canada the era of the corporate takeover.

Diversification Began in 1968

In 1968 Molson made its first major nonbrewing acquisition in more than a century. Ontario-based Anthes Imperial Ltd. was a public company specializing in steel materials, office furniture and supplies, construction equipment rentals, and public warehousing. The Anthes executive staff was known to be highly talented in acquisitions and strategic management, two areas in which Molson needed expert help to pursue its goal of diversification. However, because the various Anthes companies required different management and marketing strategies, the acquisition did not benefit Molson as much as its directors had hoped. Soon Molson sold off most of the Anthes component companies. The company had learned that future acquisitions should be of firms that were more compatible with Molson's longstanding strengths in marketing consumer products and services.

Molson did retain one important component of Anthes: its president. As Molson's chairman, Donald "Bud" Willmot directed a series of successful acquisitions in the early 1970s. Management felt that the ideal candidate must be a Canadian-based firm and must be involved in above-average growth. The do-it-yourself material supplies market appeared to be the ideal candidate: there seemed to be a new trend--consumers doing their own home improvements--and Molson recognized the potential for rapid growth of this market in urban areas, which at that time had few or no lumberyards or similar outlets. Molson began acquiring small hardware, lumber, and home furnishings companies. In 1972 it spent $50 million buying more than 90 percent of the shares of Beaver Lumber, a large Canadian company. During the remainder of the decade Beaver acquired several smaller hardware and lumber operations. Molson's service center division grew to encompass 162 retail stores, most of them franchises, selling everything from paint to home-building supplies. In the mid-1980s Beaver began importing competitively priced merchandise from Asian countries.

In July 1973 the company's name was changed to The Molson Companies Limited, a reflection of its diversification. The beer-making operations were renamed Molson Breweries of Canada Ltd.

Although Beaver's sales climbed steadily throughout the 1970s, rapidly making it a leader in its industry, profits lagged behind what Molson had anticipated, and initially the company considered the Beaver purchase only a modest success. Struggling at first to integrate the brewing and home improvement divisions, Molson eventually learned that the two industries, and marketing therein, are very different. The beer industry operates in a controlled market; governments regulate sale and manufacture of alcoholic products. The hardware industry, on the other hand, operates in a relatively free market. Furthermore, in brewing, manufacturing efficiency is the key to a profitable enterprise, but the success of a home improvement retail operation hinges on the ability to provide a broad variety of products at competitive prices.

The challenge of integrating two companies operating in such different markets led Molson to a careful reassessment of its diversification criteria; in the future, the company would concentrate on marketing specific product brands. W.J. Gluck, vice-president of corporate development wrote: "We only wanted to go into a business related to our experience--a business in which marketing, not manufacturing, is the important thing." The search for another acquisition began.

Expansion into Chemicals, Sports, and Entertainment in 1978

In 1978 Molson offered $28 per share of stock in Diversey Corporation, a manufacturer and marketer of institutional chemical cleansers and sanitizers based in Northbrook, Illinois. Contending that their company--which boasted $730 million in annual sales--was worth more, Diversey stockholders contested the sale, but eventually accepted Molson's original $55 million offer. Diversey was Molson's first large acquisition in the United States, though most of its clients and manufacturing plants were in fact located outside the United States in Europe, Latin America, and the Pacific basin. Molson also bought into sports and entertainment in 1978, buying a share in the Club de Hockey Canadien Inc. (the Montreal Canadiens) and the Montreal Forum, as well as hosting Molson Hockey Night in Canada and other television shows through its production company, Ohlmeyer Communications.

Molson opened the 1980s with the $25 million purchase of BASF Wyandotte Corporation, a U.S. manufacturer of chemical specialties products related to food services and commercial laundries. The subsequent merger of BASF and Diversey made Molson's chemical products division its second largest earnings contributor. Prior to the merger, Diversey was a weak competitor in the U.S. sanitation supplies market. BASF Wyandotte, however, was a leader in the U.S. kitchen services market. Thus the marriage was a sound move for Diversey, which had found a relatively inexpensive way to increase its share of its market in the United States.

Having concentrated on diversification, Molson found that it had missed the globalization of the brewing industry that had begun in the 1970s. While other major competitors had expanded internationally through acquisition, Molson had not completed a single foreign acquisition. Although the conglomerate remained profitable throughout the 1980s, it became clear to the board of directors--led by eighth-generation heir Eric Molson--that the company would need to make some international connections to remain a major, independent participant in the beer market.

1988 Merger of Molson Breweries and Carling O'Keefe

In 1988 the board hired Marshall "Mickey" Cohen as president and CEO. A career civil servant who had entered the private sector in 1985, Cohen was brought into Molson with one objective: to raise the 202-year-old company's sagging returns. His first move was to revive ailing merger talks between Molson and Elders IXL Ltd., Australia's largest publicly traded conglomerate. Elders (subsequently renamed for its beer-making subsidiary, Foster's Brewing Group Ltd.) had recently capped off a five-year amalgamation of global brewing companies with the purchase of Canada's number three brewery, Carling O'Keefe. The proposed merger of number two Molson with Carling was called "the biggest and most audacious deal in Canadian brewing history" in a 1989 *Globe and Mail* story, but it required Molson to share control of the resulting company (50-50 between Molson and Foster's). Whereas it had been difficult for Cohen's predecessors to agree to relinquish more than two centuries of control, Cohen had no such compunctions.

The resulting union gave Molson access to Foster's 80-country reach, while Foster's bought entree into the lucrative U.S. market, where Molson was the second largest importer after Heineken NV. The merger also helped lower both participants' production costs: the combined operations were pared from 16 Canadian breweries down to nine, and employment was correspondingly cut by 1,400 workers. As a concession to its larger pre-merger size--Molson's brewery assets were valued at $1 billion, whereas Carling's only amounted to about $600 million--Cohen also managed to wring $600 million cash for Molson Companies out of the deal.

Some analysts surmised that the CEO would use the funds to further supplement the multinational beer business, but he surprised many with the $284 million acquisition of DuBois Chemicals Inc., the United States' second largest distributor of cleaning chemicals, in 1991. The addition boosted Diversey's annual sales by 25 percent to $1.2 billion and augmented operations in the United States, Japan, and Europe. Unfortunately, the merger proved more troublesome than expected, and a subsequent decline in service alienated customers. While Diversey's sales increased to $1.4 billion in fiscal 1994 (ended March 1994), its profits declined to $72.6 million and the subsidiary's president jumped ship. Cohen took the helm and began to formulate a turnaround plan.

Hoping to boost the Molson brand's less-than-one-percent share of the U.S. beer market, Molson and Foster's each agreed to sell an equal part of its stake in Molson Breweries to Miller Brewing Company, a leader in the American market. Miller's $349 million bought it a 20 percent share of Molson Breweries and effectively shifted control of Canada's leading brewer to foreigners in 1993 (Molson's stake in Molson Breweries having been reduced to 40 percent). Cohen expected the brand to retain its distinctly Canadian character (the beer would continue to be manufactured exclusively in Canada), but hoped that it would benefit from Miller's marketing clout.

Molson's financial results were mediocre at best in the early 1990s. Sales rose from $2.55 billion in fiscal 1990 to $3.09 billion in fiscal 1993, but earnings vacillated from $117.9 million in fiscal 1990 to a net loss of $38.67 million the following year, rebounding to $164.69 million in fiscal 1993. The company blamed its difficulties on Diversey's money-losing U.S. operations, which faced strong competition from industry leader Ecolab Inc. The following year's sales and earnings slipped to $2.97 billion and $125.67 million, respectively, as Diversey continued to lose money in the United States.

Nevertheless, Cohen remained determined to turn Diversey's operations around. Late in 1994 he announced a decision to divest Molson's retail home improvement businesses to focus on the brewing and chemicals operations. By this time Molson's retail sector included Beaver Lumber, a 45.1 percent interest in the Quebec-based Réno-Dépôt Inc. chain, and a 25 percent stake in Home Depot Canada. The last of these was rooted in Molson's 1971 purchase of the Ontario-based Aikenhead's Home Improvement Warehouse chain. In 1994 Home Depot Inc. purchased a 75 percent stake in Aikenhead's, whose stores were then converted to Home Depots.

Refocused on Brewing in the Mid-1990s

The exit from retailing proved to be a slow one, however, and Molson dramatically shifted course in 1996 when it sold Diversey, jettisoning its troubled chemicals operations. Most of Diversey was sold to Unilever PLC, with the entire chemical unit bringing about US$1.1 billion to Molson. Nonetheless, charges related to the sale and for restructuring both Molson Breweries and Beaver Lumber resulted in a net loss of C$305.5 million (US$225 million) for fiscal 1996. Management shakeups led to Cohen's exit from Molson in September 1996 and to Cohen's replacement, former company executive Norman Seagram, lasting only until May 1997, when James Arnett took over as president and CEO. Arnett, a corporate lawyer based in Toronto, had been a director of Molson. Meanwhile, the historic Montreal Forum was replaced in 1996 as the home of the Montreal Canadiens by the newly built Molson Centre, a 21,400-seat state-of-the-art arena, which was wholly owned by the Molson Companies.

Under Arnett's leadership, it quickly became apparent that brewing was once again number one at Molson. The company finally began to unload its retail interests, starting with the March 1997 sale of its interest in Réno-Dépôt. In April 1998 Molson's stake in Home Depot Canada was sold to Home Depot Inc. for C$370 million (US$260 million). Two months later Molson announced that it would sell Beaver Lumber as well, and it placed Beaver within its area of discontinued operations.

The long-neglected Molson Breweries had suffered from steadily declining market share, falling from 52.2 percent of the Canadian market in 1989 to 45.8 percent in mid-1997. John Barnett had been named president of Molson Breweries in November 1995, and he used his 25-plus years of brewing experience to aggressively attempt to reverse the decline. He decentralized the unit's operations (which included seven Canadian breweries) and began niche marketing, targeting particular brands at specific Canadian regions.

While Barnett moved to shore up Molson Breweries, Arnett acted quickly to regain full control of the unit. In December 1997, Molson Companies, Foster's, and Miller Brewing reached an agreement that restructured their relationships. Molson and Foster's repurchased Miller's 20 percent stake in Molson Breweries, returning each to 50 percent shares in the unit. The deal also had Molson and Foster's purchasing a 24.95 percent stake in Molson USA, with Miller retaining a 50.1 percent interest. Molson USA was charged with distributing Molson and Foster's brands in the United States. The new relationship also called for Molson Breweries to continue to manage the Miller brands in Canada.

Then in June 1998 Molson regained full ownership of Molson Breweries by paying C$1 billion (US$679.4 million) in cash to Foster's. Through the deal, Molson also gained Foster's stake in Coors Canada Inc., manager of Coors brands in Canada. Molson's interest in Coors Canada was thus increased to 49.9 percent.

With the Canadian beer market in an extended flat period and with Labatt's share of the market nearly equal to that of Molson's, Arnett was counting on Canadians preferring 100 percent Canadian-owned Molson brands to those of Labatt, which had been purchased by Belgium's Interbrew S.A. in 1995. Although this strategy seemed somewhat questionable, retaking full control of Molson Breweries certainly proved that The Molson Companies was fully focused on brewing. The company was likely to seek to build its brewery operations through acquisition, particularly once the sale of Beaver Lumber was finally completed.

Principal Subsidiaries: Molson Breweries; Beaver Lumber Company Limited; Club de Hockey Canadien, Inc.; Molson Centre Inc.; Coors Canada Inc. (49.9%).

Further Reading:

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